

Message Text

PAGE 01 STATE 168835

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ORIGIN EA-03

INFO OCT-01 ISO-00 /004 R

66611
DRAFTED BY: EA/ROC:KWEAVER:BDS
APPROVED BY: EA/ROC:CWFREEMAN, JR.

----- 101426

R 172138Z JUL 75
FM SECSTATE WASHDC
INFO AMEMBASSY TAIPEI 0846

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FOLLOWING REPEAT KUWAIT 2971 ACTION SECSTATE INFO
ABU DHABI BEIRUT DAHRAN DOHA JIDDA MANAMA MUSCAT
TEHRAN BAGHDAD (POUCH) OECD PARIS EC BRUSSELS USDOC
15 JULY.

QUOTE

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COMMERCE FOR MEPD

E.O. 11652: NA
TAGS: ENRG, EIND, KU
SUBJ: KNPC REFINERY PROJECTS

1. KUWAIT NATIONAL PETROLEUM COMPANY (KNPC) MOVING FORWARD
WITH SEVERAL REFINERY AND RELATED PROJECTS. LARGEST AND MOST
IMPORTANT IS PLAN TO DEVELOPE NEW GRASS ROOTS REFINERY. BECHTEL
HAS NOW COMPLETED TECHNICAL AND ECONOMIC FEASIBILITY STUDY WHICH
KNPC REVIEWING. KNPC MAY DECIDE TO BUILD TWO 250,000 BPD
REFINERIES AT ANTICIPATED COST OF \$1.4 BILLION EACH. FIRST
WOULD COME ON STREAM IN 1981 AND IF DECISION IS MADE SOON TO
BUILD SECOND ONE ALSO, IT WOULD BE READY IN 1982. REFINERIES
WOULD CONVERT KUWAITI CRUDE TO LOW SULPHER, LOW BOILING POINT
PRODUCTS, AND LIKE PRESENT SHUAIBA REFINERY WOULD USE H-OIL
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PAGE 02 STATE 168835

PROCESS.

2. CRITICAL REQUIREMENT FOR KNPC IS TO FIND LONG TERM MARKETS AND
CUSTOMERS. COMPANY EXPECTS THEY WILL BE FOUND IN EUROPE, TAIWAN,

JAPAN, OR PERHAPS IN BRAZIL. US, HOWEVER, NOT CONSIDERED A LIKELY MARKET, BECAUSE OF ITS MANY HINDRANCES TO PRODUCT IMPORTS. KNPC BELIEVES IT IS IMPORTANT TO BE THE FIRST TO BUILD NEW EXPORT REFINERY IN GULF SO THAT IT CAN CAPTURE MARKETS, EQUIPMENT AND PEOPLE TO BUILD REFINERYWN ALL OF WHICH MAY BECOME SCARCE. MOREOMER, GOK MINISTER OF OIL HAS RECENTLY AFFIRMED GOVERMENTS POLICY OF EMPHASIZING SALE OF KUWAITI PETROLEUM IN REFINED FORM. THEREFORE, APPEARS LIKELY GOK WILL DECIDE BEFORE LONG TO GO FORWARD WITH AT LEAST ONE OF THE 250,000 BPD REFINERIES.

3. KNPC ALSO APPLYING BECHTEL METHODOLOGY AND COMPUTER ANALYSIS TO KOC REFINERY MODERNIZATION STUDY. UNLIKE KNPC SHUAIBA REFINERY KOC REFINERY IS NOT VERY MODER OR SOPHISTICATED. THE WTPPPP BPD REFINERY HAS BEEN RUNNING ONLY AT ABOUT UPPPP BPD RECENTLY DUE TO LOW DEMAND FOR ITS PRODUCTS. KNPC TRYING TO DEFINE MARKET AND WHAT KIND OF REFINERY UOC INSTALLATION SHOULD BECOME. ONE VIEW IS IT IS NOT WORTH MODERIZING AGEING REFINERY BU APPARENTLY MINISTER OF OIL BELIEVES KNO REFINERY MODERIZATION IMPORTANT FOR DOMESTIC POLITICAL REASONS. NOT CLEAR WHAT COST OF MODERIZATION PROJECT WILL BE.

4. IMPROVEMENTS AT SHUAIBA REFINERY ARE U DERWAY. SNAM/PROGETTI HAS COMPLETED DEBOTTLENECKING PROJECT, ALTHOUGH KNPC WAS NOT VERY HAPPY WITH COMPANYS PERFORMANCE AND IT UNLIKELY IT WILL GET ADDITIONAL WORK HEREWM BEFORE LONE REFINERY WILL BE OPERATING AT 180000 BPD LEVEL. CONTRACT FOR \$70 MILLION NEW HYDROCRACKER HAS BEEN SIGNED WITH FOSTER-WHEELER AND IT IS EXPECTED TO COME ON STEAM IN OCTOBER 1977.

5. KNPC ALSO CONTINUING TO PURSUE LUBE OIL BLENDING PLANT PROJECT. HOWEVER DISCUSSIONS WITH MOBIL DID NOT SUCCEED. KNPC IS NOW LIKELY TO WORK WITH SHELL ON THE PROJECT WHICH PROBABLY WILL COST \$7.2 MILLION. SHELL WILL PROVIDE TECHNICAL ASSISTANCE AND CERTAIN RAW MATERIALS AND ADDITIVES. KNPC WILL WANT TO USE MOBILS DESIGN, HOWEVER AND THIS COULD RESULT IN A LEGAL DISPUTE BETWEEN COMPANIES. MOST EQUIPMENT LIKELY TO BE PURCHASED LIMITED OFFICIAL USE
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PAGE 03 STATE 168835

IN US.

6. COMMENT: AS DEPARTMENT AWARE GOK RECENTLY NATIONALIZED 40 PERCENT PRIVATE OWNERSHIP OF KNPC. RECENTLY NEW BOARD OF DIRECTORS WAS NAMED BY MINISTER OF OIL. IN HIS POLICY SPEECH TO NATIONAL ASSEMBLY (SEPTELS) MINISTER MADE IT CLEAR KNPC WILL PLAY MAJOR ROLE IN PETROLEUM I DUSTRIES ALTHOUGH IT NOT CLEAR DEGREE TO SHICH IT WILL BECOME INVOLVED IN PETROCHEMICALS OR TANKERS. FYI COMPANY HAS \$260 MILLION BUDGETED FOR PRODUCT TANKERS IN CONNECTION WITH PRESENT OPERATIONS BUT IT MUH NEVER GET INTO THIS END OF BUSINESS. END FYI. NEVERTHELESS COMPANY HAS FULL PLAATE OF IMPORTANT TASKS BEFORE IT AND MOST SOLID BACKING EVER OF GOK.

ITS POSITION MAY BECOME EVEN MORE IMPORTANT LOCALLY IF IT GETS
INVOLVED IN DIRECT CRUDE SALES ON BEHALF OF GOK. MAU UNQUOTE
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Message Attributes

Automatic Decaptioning: X
Capture Date: 26 AUG 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM INDUSTRY, REFINERIES
Control Number: n/a
Copy: SINGLE
Draft Date: 17 JUL 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: CunninFX
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975STATE168835
Document Source: ADS
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: 11652 NA
Errors: n/a
Film Number: D750248-0341
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t197507105/baaaapob.tel
Line Count: 114
Locator: TEXT ON-LINE, TEXT ON MICROFILM
Office: ORIGIN EA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: CunninFX
Review Comment: n/a
Review Content Flags:
Review Date: 23 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <23 APR 2003 by ShawDG>; APPROVED <02 OCT 2003 by CunninFX>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: n/a
TAGS: ENRG, EIND, KU, KUWAIT NATIONAL PETROLEUM CO
To: n/a INFO TAIPEI
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006